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8 -and-

9 **WILLKIE FARR & GALLAGHER LLP**

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20 *Counsel for Ad Hoc Group of Subrogation Claim Holders*

21 **UNITED STATES BANKRUPTCY COURT**
22 **NORTHERN DISTRICT OF CALIFORNIA**
23 **SAN FRANCISCO DIVISION**

24 In re:

25 PG&E CORPORATION,

26 -and-

27 PACIFIC GAS AND ELECTRIC
28 COMPANY,

Debtors.

- 29 Affects PG&E Corporation
30 Affects Pacific Gas and Electric Company
31 Affects both Debtors

32 ** All papers shall be filed in the lead case,
33 No. 19-30088 (DM)*

34 Bankr. Case No. 19-30088 (DM)
35 Chapter 11
36 (Jointly Administered)

37 **DECLARATION OF HOMER**
38 **PARKHILL IN SUPPORT OF THE AD**
39 **HOC GROUP OF SUBROGATION**
40 **CLAIM HOLDERS' STATEMENT IN**
41 **SUPPORT OF THE SUBROGATION**
42 **SETTLEMENT AND RSA MOTION**
43 **[DKT NO. 3992]**

44 Date: October 23, 2019
45 Time: 10:00 a.m. (Pacific Time)
46 Place: United States Bankruptcy Court
47 Courtroom 17, 16th Floor
48 San Francisco, CA 94102

1 HOMER PARKHILL, pursuant to 28 U.S.C. § 1746, hereby declares under penalty
2 of perjury as follows:

3 1. I am the co-head of the North American restructuring practice of Rothschild
4 & Co US Inc. (“Rothschild & Co”).

5 2. The Ad Hoc Group of Subrogation Claim Holders (the “Ad Hoc Subrogation
6 Group”) retained Rothschild & Co to serve as its financial advisor and investment banker in
7 connection with these Chapter 11 Cases. I am the lead senior banker for Rothschild & Co’s Ad Hoc
8 Subrogation Group engagement and have testified as a witness pursuant to Federal Rule of Civil
9 Procedure 30(b)(6) on behalf of the Ad Hoc Subrogation Group.

10 3. I am familiar with the Debtors’ Motion Pursuant to 11 U.S.C. §§ 363(b) and
11 105(a) and Fed. R. Bankr. P. 6004 and 9019 for Entry of an Order (I) Authorizing the Debtors to
12 Enter into Restructuring Support Agreement with the Consenting Subrogation Claimholders, (II)
13 Approving the Terms of Settlement with Such Consenting Subrogation Claimholders, Including the
14 Allowed Subrogation Claim Amount, and (III) Granting Related Relief [Dkt. No. 3992] (the
15 “Subrogation Settlement and RSA Motion”). I submit this Declaration in support of the Ad Hoc
16 Subrogation Group’s Statement in Support of the Subrogation Settlement and RSA Motion.

17 4. I, along with others on my team at Rothschild & Co and the Ad Hoc
18 Subrogation Group’s legal counsel at Willkie Farr & Gallagher LLP (“Willkie”), represented the Ad
19 Hoc Subrogation Group in negotiating a resolution of its members’ subrogation claims against the
20 Debtors. During these negotiations, the Debtors were represented by their legal counsel at Cravath,
21 Swaine & Moore LLP (“Cravath”) and Weil, Gotshal & Manges LLP (“Weil”), as well their
22 financial advisor, Lazard Ltd. (“Lazard”).

1 5. Negotiations between the Ad Hoc Subrogation Group and the Debtors
2 ultimately culminated in an agreement to settle the Ad Hoc Subrogation Group's members' claims
3 for \$11 billion, which the Debtors announced on September 13, 2019 (the "Subrogation
4 Settlement").
5

6 6. The process of negotiating the Subrogation Settlement was protracted,
7 conducted at arm's length, extended over several months, and proceeded by fits and starts. On
8 several occasions between May 2019 and September 2019, the Debtors and the Ad Hoc Subrogation
9 Group (through their respective professionals) met—either in person or by telephone—to exchange
10 their competing views of the legal and factual merits of the Ad Hoc Subrogation Group's claims,
11 and they traded several offers and counter-offers before bridging their differences and agreeing to
12 the economic terms reflected in the Subrogation Settlement. During these negotiations and in
13 connection with papering the settlement with the Debtors, the Ad Hoc Subrogation Group also
14 provided the Debtors with information concerning the amount of its members' subrogation claims
15 for the Debtors to review and subject to due diligence.
16

17 7. In May 2019, the Debtors offered to resolve the Ad Hoc Subrogation Group's
18 members' claims for \$4.5 billion, indicating that this was an initial offer intended to jumpstart
19 discussions. On May 21, 2019, in connection with this offer, the Debtors' counsel (Kevin Orsini of
20 Cravath) gave a telephonic presentation to professionals representing the Ad Hoc Subrogation
21 Group's members, in which he explained the Debtors' position with respect to the legal and factual
22 merits of the subrogation claims asserted against them.
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24 8. The Ad Hoc Subrogation Group rejected the Debtors' \$4.5 billion settlement
25 offer and, in June 2019, made a counter-offer of \$15.8 billion. In connection with this counter-offer,
26 counsel to the Ad Hoc Subrogation Group sent a detailed letter to Debtors' counsel outlining the
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1 legal and factual bases for the Ad Hoc Subrogation Group's counter-offer. The Debtors quickly
2 rejected the Ad Hoc Subrogation Group's \$15.8 billion counter-offer, and discussions between the
3 Ad Hoc Subrogation Group and the Debtors stalled for several weeks.

4 9. On July 1, 2019, the Ad Hoc Subrogation Group provided information to the
5 Debtors demonstrating that the total amount of its members' subrogation claims (at that time) was
6 approximately \$18.5 billion. This calculation excluded subrogation claims corresponding to
7 insurance claims that the Ad Hoc Subrogation Group's members expected would be paid but, at the
8 time, had not been reported as either Paid Claims or Reserve Claims—which are known as incurred
9 but not reported ("IBNR") claims. Attached hereto as **Exhibit A** is a true and correct copy of an e-
10 mail from Matthew Feldman of Willkie (counsel to the Ad Hoc Subrogation Group) to Kevin Orsini
11 of Cravath, Stephen Karotkin of Weil, and Ken Ziman of Lazard (the Debtors' legal and financial
12 advisors), dated July 1, 2019 (AHSG_PGE-00000098), setting forth this analysis.
13

14 10. The analysis set forth in Exhibit A broke out the Ad Hoc Subrogation Group
15 members' claims, as of July 1, 2019, by wildfire and claim status. It demonstrated that:

- 16 • With respect to the 2017 North Bay Fires (other than the Tubbs Fire), the Ad
17 Hoc Subrogation Group's members held approximately \$2.277 billion in
18 subrogation claims corresponding to paid insurance claims ("Paid Claims")
19 and another \$439 million in subrogation claims corresponding to its
20 members' open insurance reserves ("Reserve Claims"), resulting in
21 approximately \$2.716 billion in subrogation claims arising from the North
22 Bay Fires (other than the Tubbs Fire);
23 • With respect to the Tubbs Fire, the Ad Hoc Subrogation Group's members
24 held approximately \$6.227 billion in Paid Claims and another \$1.217 billion
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1 in Reserve Claims, totaling approximately \$7.444 billion (excluding IBNR
2 claims); and

- 3 • With respect to the 2018 Camp Fire, the Ad Hoc Subrogation Group's
4 members held approximately \$5.422 billion in Paid Claims and another
5 \$1.955 billion in Reserve Claims, totaling approximately \$7.377 billion
6 (excluding IBNR claims).

7

8 11. On July 23, 2019, the Ad Hoc Subrogation Group filed a motion to terminate
9 the Debtors' exclusivity to enable the Ad Hoc Subrogation Group to file its own Chapter 11 plan of
10 reorganization (*see* Dkt. No. 3147). The Ad Hoc Subrogation Group's proposed plan term sheet
11 contemplated that the Ad Hoc Subrogation Group members' claims would be resolved for \$15.8
12 billion. The Debtors opposed the Ad Hoc Subrogation Group's motion, and the Court denied it on
13 August 16, 2019 (*see* Dkt. No. 3568).

14

15 12. The Ad Hoc Subrogation Group and the Debtors continued their on-again,
16 off-again discussions through the remainder of July and August, and into September. During this
17 period, the Ad Hoc Subrogation Group provided the Debtors with updated information concerning
18 the amount of its members' subrogation claims, broken out by wildfire and claim status. On July
19 30, 2019, the Ad Hoc Subrogation Group provided the Debtors with an updated analysis
20 demonstrating that (as of that date) the Ad Hoc Subrogation Group's members held a total of over
21 \$19.5 billion in subrogation claims against the Debtors and that this total increased to over \$22
22 billion once related claims for interest and attorneys' fees were included. These updated numbers
23 reflected additional Paid Claims, as well as the insurers' revised estimates on Reserve Claims. The
24 Reserve Claims are a GAAP metric, which require a best estimate. Attached hereto as **Exhibit B** is
25 a true and correct copy of an e-mail from Thomas McCarthy of Rothschild & Co to the Debtors'
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1 professionals and others, dated July 30, 2019 (AHSG_PGE-00000394-95), attaching the analysis
2 prepared by the Ad Hoc Subrogation Group.

3 13. The analysis set forth in Exhibit B demonstrated that (as of July 30, 2019):

- 4 • the Ad Hoc Subrogation Group's members held a total of over \$3 billion in
5 subrogation claims arising from the North Bay Fires (other than the Tubbs
6 Fire), comprised of approximately \$2.411 billion in Paid Claims, \$464 million
7 in Reserve Claims, and \$144 million in IBNR claims;
- 8 • the Ad Hoc Subrogation Group's members held a total of over \$8 billion in
9 subrogation claims arising from the Tubbs Fire, comprised of approximately
10 \$6.555 billion in Paid Claims, \$1.129 billion in Reserve Claims, and \$384
11 million in IBNR claims; and
- 12 • the Ad Hoc Subrogation Group's members held a total of nearly \$8.5 billion
13 in subrogation claims arising from the Camp Fire, comprised of
14 approximately \$5.890 billion in Paid Claims, \$1.824 billion in Reserve
15 Claims, and \$771 million in IBNR claims.

16 14. In September 2019, as the Ad Hoc Subrogation Group and the Debtors were
17 finalizing the Subrogation Settlement, the Ad Hoc Subrogation Group provided the Debtors with
18 detailed information concerning the Ad Hoc Subrogation Group's members' subrogation claims.

19 15. For example, the Ad Hoc Subrogation Group provided the Debtors with a
20 spreadsheet itemizing the Ad Hoc Subrogation Group's members' Paid and Reserve Claims, and a
21 memorandum aggregating all of the Ad Hoc Subrogation Group's members' Paid Claims, Reserve
22 Claims, and IBNR claims accompanied the spreadsheet. These materials provided the Debtors with
23 detailed quantitative and qualitative data concerning Paid Claims and Reserve Claims broken out by
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27 28

1 individual fire. They also demonstrate that the Ad Hoc Subrogation Group members' damages
2 claims against the Debtors (including Claims, Reserve Claims, and IBNR claims, but excluding
3 interest or attorneys' fees) total approximately \$20.679 billion.

4
5 16. In addition to providing the Debtors with this memorandum, the Ad Hoc
6 Subrogation Group provided the Debtors with a representative sample of 120 complete insurance
7 claims files to enable the Debtors to conduct due diligence of the Ad Hoc Subrogation Group
8 members' claims.

9 17. In view of the total value of the Ad Hoc Subrogation Group's subrogation
10 claims as detailed above in this Declaration, I believe the \$11 billion Subrogation Settlement
11 represents a significant compromise by the Ad Hoc Subrogation Group.

Dated: October 21, 2019

/s/ Homer Parkhill

Homer Parkhill

Exhibit A

From: Feldman, Matthew
Sent: Monday, July 1, 2019 2:23 PM
To: 'Kevin Orsini'; Karotkin, Stephen; 'ken.ziman@lazard.com'
CC: Minias, Joseph; Parkhill, Homer; 'Delo, Charles'
BCC: PG&EWillkie
Subject: Claims Data -- Confidential and Subject to FRE 408

CONFIDENTIAL COMMUNICATION WHICH MAY BE SHARED ONLY WITH THE DEBTORS AND ITS PROFESSIONALS

Kevin,

As we discussed last week, below is the most current information we have with respect to the amount of total subrogation claims related to the 2017 and 2018 fires broken out into three buckets – North Bay without Tubbs, Tubbs, and Camp.

PLEASE NOTE THESE NUMBERS DO NOT INCLUDE (1) DAMAGES THAT ARE PROJECTED TO ACTUALLY BE PAID, BUT PRESNETLY ARE NEITHER FOUND IN PAID NOR RESERVES (THIS NUMBER RELATES ALMOST EXCLUSIVELY TO CAMP AND COULD TOTAL UP TO AN ADDITIONAL \$1B), (2) POSTPETITION INTEREST, OR (3) PROFESSIONAL FEES FOR THE AD HOC GROUP OF SUBROGATION CLAIMANTS OR ITS MEMBERS. IN ADDITION TO ANY OTHER CONDITIONS EACH OF THESE ECONOMIC CATEGORIES WOULD NEED TO BE RESOLVED AS PART OF ANY SETTLEMENT.

Paid	\$2,277,086,429.68
Open Reserves	\$438,644,811.42
Total Claim	\$2,715,731,241.10
Tubbs Only	
Paid	\$6,227,254,582.57
Open Reserves	\$1,217,166,931.97
Total Claim	\$7,444,421,514.53
Camp Only	
Paid	\$5,422,120,563.15
Open Reserves above)	\$1,955,184,542.95 (excludes the additional \$1B referenced
Total Claim	\$7,377,305,106.10

The numbers continue to be refined as we receive additional reporting from the subrogation claim holders and an update will occur in approximately two weeks. That said, at this point the movement on the numbers is relatively small compared to the overall claims of approximately \$18.5B when including the claims expected to be paid but not yet reflected as outlined above.

Let us know what your timing is and next steps.

Matt

Matthew A. Feldman
Willkie Farr & Gallagher LLP
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Direct: +1 212 728 8651 | Fax: +1 212 728 9651
mfeldman@willkie.com | vCard | www.willkie.com/bio

Exhibit B

From: McCarthy, Thomas [Thomas.McCarthy@rothschildandco.com]
Sent: Tuesday, July 30, 2019 9:55 PM
To: Silverman, Eli; Mooney, Nathan; Christian Tempke; Ken Ziman
CC: Feldman, Matthew; Minias, Joseph; Parkhill, Homer; Delo, Charles; Stephen.karotkin@weil.com; korsini@cravath.com
Subject: PG&E // Updated subrogation claims
Attachments: Claims summary.pdf

Lazard team,
Please see attached for updated subrogation claim amounts, bucketed by Camp, Tubbs and other NB fires. Let us know if you have any questions.
Thanks,
Tom

Thomas McCarthy
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Rothschild & Co US Inc.
1251 Avenue of The Americas, New York, NY 10020

Claims summary*Privileged and Confidential draft - prepared at the request of counsel*

Subject to FRE 408

Claims (\$ in millions)

	Camp	Tubbs	Other NBF	Total
Paid	\$5,890	\$6,555	\$2,411	\$14,856
Open reserves	1,824	1,129	464	3,418
Total claims: before IBNR	\$7,714	\$7,684	\$2,875	\$18,273
IBNR estimate	771	384	144	1,299
Total claims: incl IBNR	\$8,486	\$8,068	\$3,019	\$19,573
Attorney Fees	\$424	\$403	\$151	\$979
Interest ¹	327	871	327	1,524
Total claims: incl. Interest and Attorney's Fees	\$9,237	\$9,343	\$3,496	\$22,076

Notes

(1) Assumes March 31, 2020 emergence date